

## FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

January 1 – March 31, 2010

### HIGHLIGHTS

This report summarizes the trends of all federally insured credit unions that reported as of March 31, 2010. Change is measured from December 31, 2009.<sup>1</sup>

- **Assets** increased \$12.97 billion, or 5.86% annualized. Total assets of federally insured credit unions totaled \$897.6 billion.
- **Net Worth** dollars increased \$1.03 billion, or 4.68% annualized. The net worth to assets ratio decreased slightly from 9.90% to 9.87%.
- **Earnings** as measured by the return on average assets increased from 0.18% to an annualized 0.47%.
- **Loans** declined \$6.81 billion, or -4.76% annualized. The loan to share ratio decreased from 76.06% to 73.16%. The new vehicle loan category had the largest decline.
- **Delinquent** loans as a percentage of total loans declined from 1.83% to 1.76%. Delinquent real estate loans as a percentage of total real estate loans increased from 1.98% to 2.02%, while delinquent business loans to total business loans increased from 3.69% to 4.06%.
- **Net Loan Charge-Offs** as a percent of average loans decreased from 1.21% to 1.19%.
- **Shares** increased \$20.58 billion, or 10.94% annualized. The largest growth in share dollars was regular shares, followed by money market, and IRA/KEOGH accounts.
- **Current members** increased by 0.3 million, or 1.35% annualized.

Number of Credit Unions Reporting		
	Federal CUs	State CUs
2006	5,189	3,173
2007	5,036	3,065
2008	4,847	2,959
2009	4,714	2,840
Mar-10	4,682	2,816

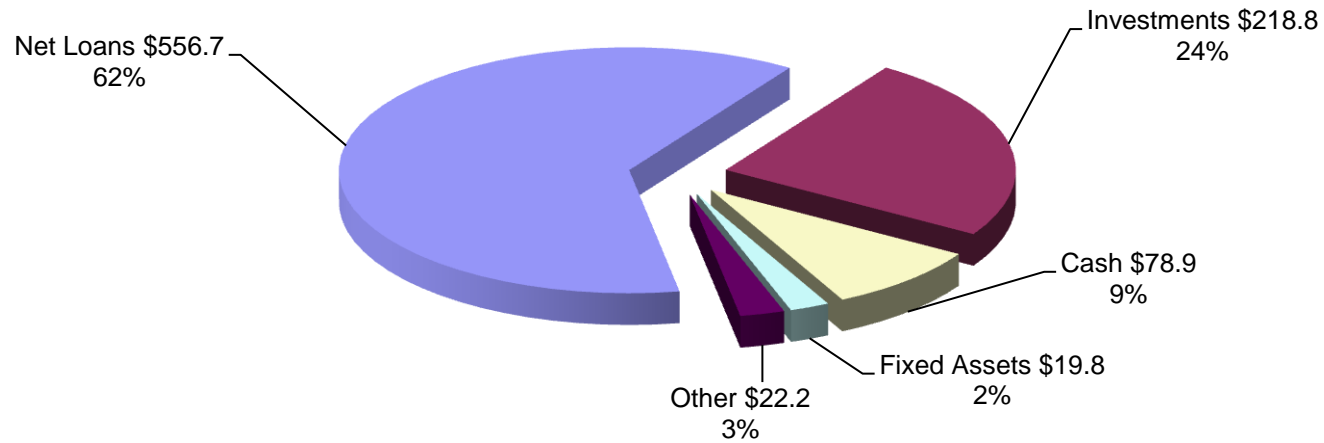
Federally insured credit unions reported improved earnings performance and overall declining loan delinquency. Continued caution will be necessary with declining loan volumes and increasing foreclosures and modifications of loans. Real estate delinquency and member business loan delinquency continue to be high and increasing. Continued vigilance in underwriting and sound asset-liability management practices will be essential.

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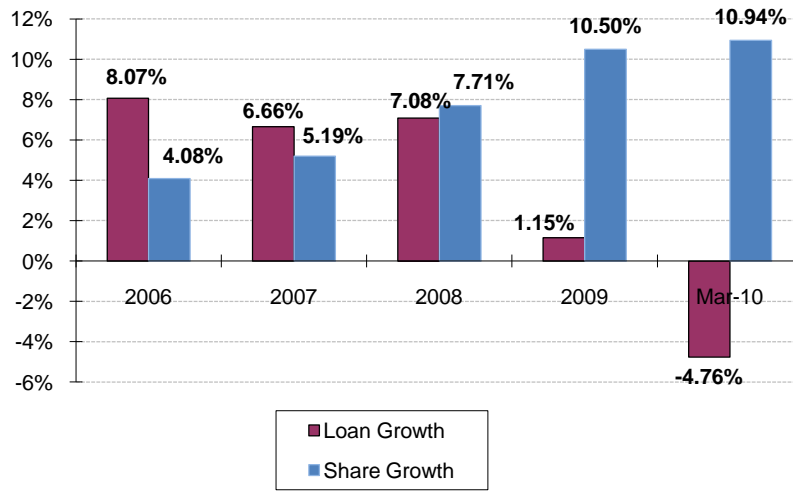
<sup>1</sup> The financial results for prior periods may reflect changes when compared to the prior period trend letters due to subsequent call report modifications.

# OVERALL TRENDS

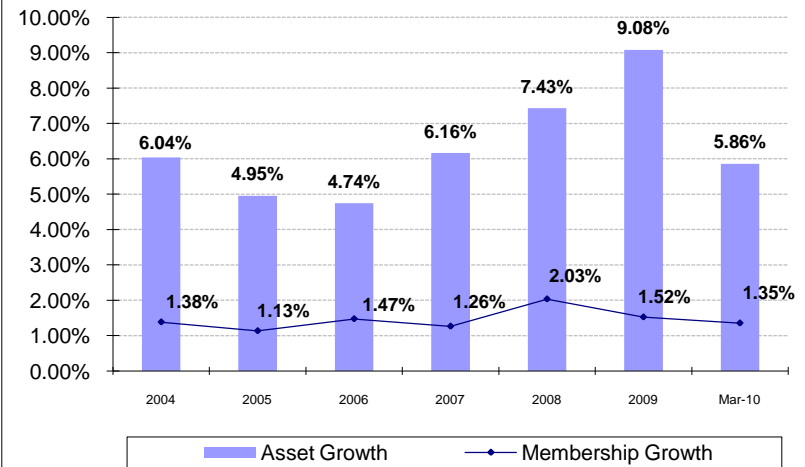
**ASSET DISTRIBUTION**  
(Billions of Dollars)



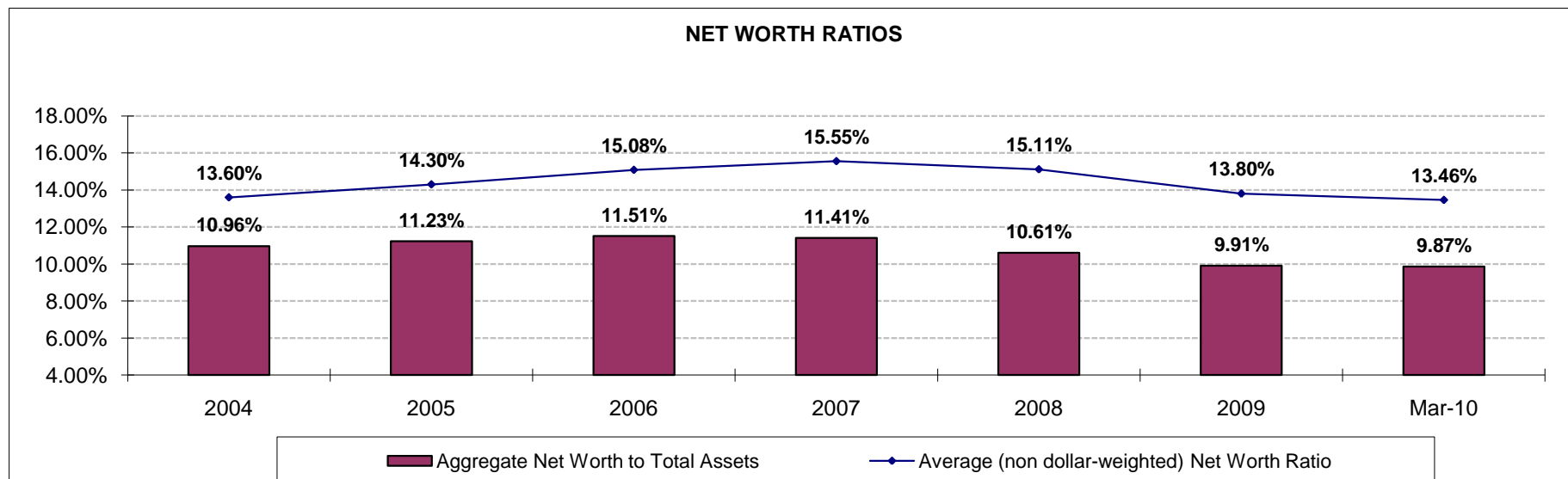
**LOAN GROWTH VS. SHARE GROWTH**



**ASSET GROWTH VS. MEMBERSHIP GROWTH**



# NET WORTH



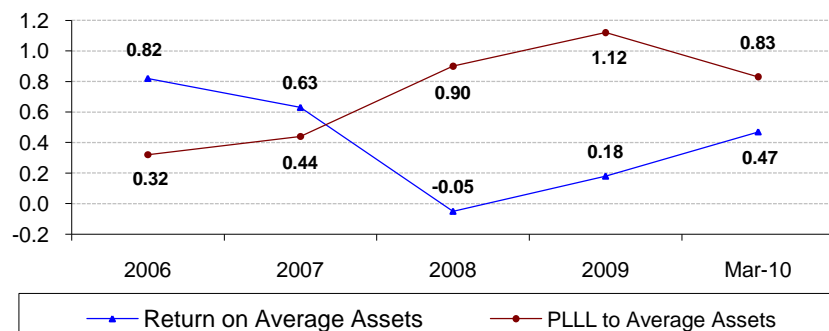
	December 2009 In Billions	March 2010 In Billions	% Change (Annualized)
Total Net Worth	\$87.6	\$88.6	4.68%
Secondary Capital	\$.079	\$.088	46.36%

NET WORTH RATIOS				
Number of Credit Unions	December 2009	% of Total	March 2010	% of Total
7% or above	7,160	94.79%	7,062	94.19%
6% to 6.99%	217	2.87%	251	3.35%
4% to 5.99%	129	1.71%	135	1.80%
2% to 3.99%	32	0.42%	35	0.50%
0% to < 2.00%	7	0.09%	8	0.11%
Less than 0%	9	0.12%	7	0.09%

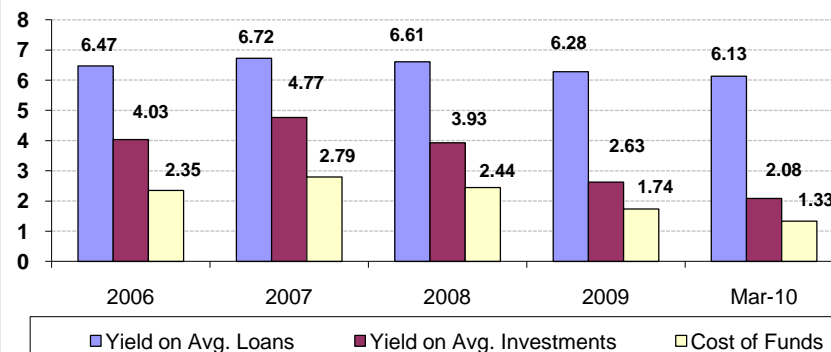
Net worth dollars increased by \$1.03 billion or 4.68% during the quarter, while the aggregate net worth ratio declined slightly to 9.87%. Increased net worth dollars did not keep pace with share growth. The number of credit unions subject to Prompt Corrective Action, as a percentage of total credit unions, increased from 5.21% as of December 31, 2009 to 5.85% as of March 31, 2010 indicating increased stress on individual credit unions from the current economic environment. At December 31, 2008, only 2% of credit unions were subject to Prompt Corrective Action.

# EARNINGS

**RETURN ON AVERAGE ASSETS VS PROVISION FOR LOAN AND LEASE LOSS (PLLL) EXPENSE (Percentages)**



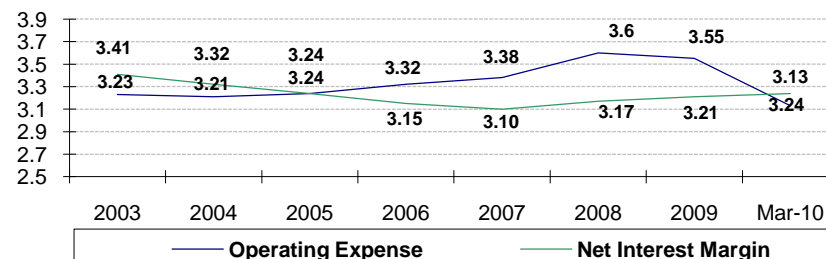
**YIELDS VS. COST OF FUNDS (Percentages)**



Ratio (% Average Assets)	2009	Mar 2010	Effect on ROA
Net Interest Margin	3.21%	3.24%	+3bp
+ Fee & Other Inc.	1.36%	1.22%	-14bp
- Operating Expenses*	3.19%	3.11%	+8bp
- PLLL	1.12%	.83%	+29bp
+ Non-Operating Income*	-0.11%	-0.02%	+9bp
= ROA	0.15%	0.50%	+35bp

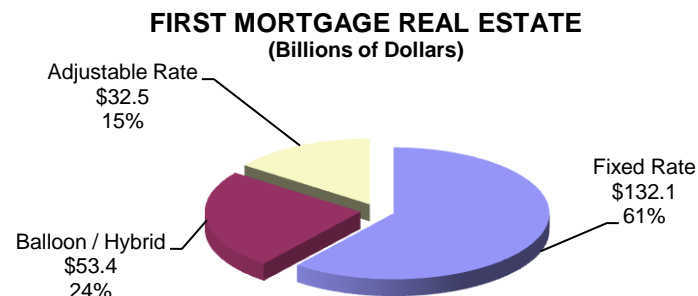
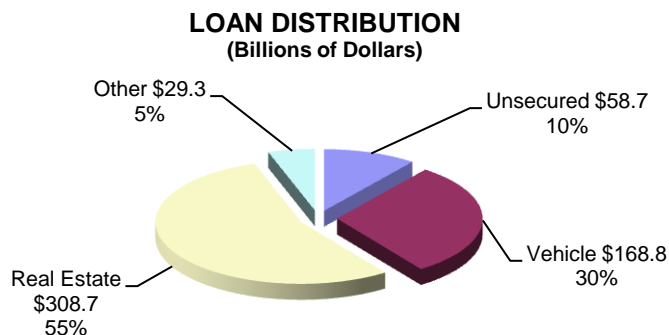
\*Expenses and income related to NCUSIF Stabilization are excluded.

**OPERATING EXPENSES VS NET INTEREST MARGIN (Percentages)**



A decline in Provision for Loan and Lease Loss expense largely contributed to the increase in the Return on Average Assets for the first quarter. The net interest margin increased slightly as decline in the cost of funds was greater than decline in loan yield. Also of note, operating expenses declined and are lower than the net interest margin which has not been the case since 2005. This is a positive development as the interest margin is enough to cover the operating expenses for the quarter.

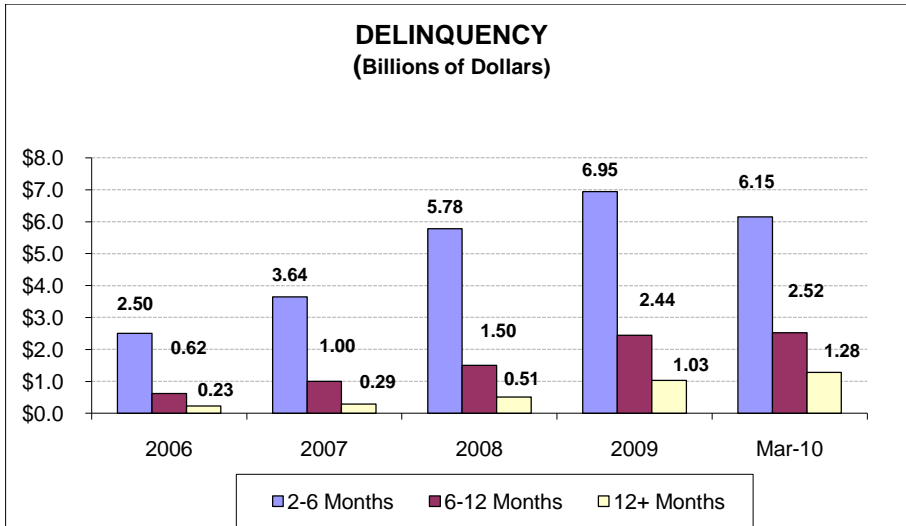
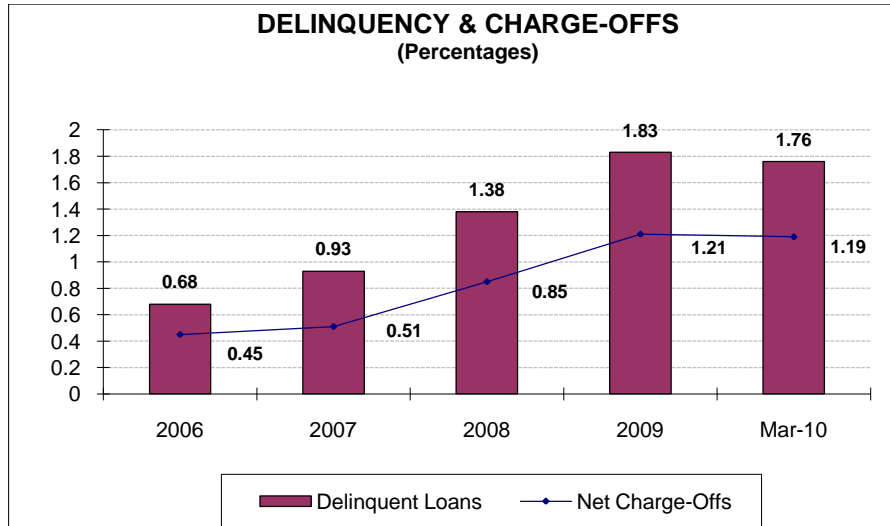
## LOAN DISTRIBUTION



Loan Category	December 2009 Balance In Billions	% of Total Loans 2009	March 2010 Balance in Billions	% of Total Loans March 2010	Growth In Billions	Growth Rate
Unsecured Credit Card	\$34.86	6.09%	\$33.87	5.99%	-\$0.99	-2.9%
All Other Unsecured	\$25.55	4.46%	\$24.85	4.39%	-\$0.70	-2.7%
New Vehicle	\$75.26	13.15%	\$70.99	12.55%	-\$4.27	-5.7%
Used Vehicle	\$98.13	17.14%	\$97.84	17.30%	-\$0.29	-0.3%
First Mortgage Real Estate	\$217.16	37.93%	\$217.97	38.53%	\$0.81	0.4%
Other Real Estate	\$92.44	16.15%	\$90.80	16.05%	\$-1.64	-1.8%
Leases Receivable & All Other	\$29.10	5.08%	\$29.37	5.19%	\$0.27	1.1%
<b>Total Loans</b>	<b>\$572.50</b>		<b>\$565.69</b>		<b>-\$6.81</b>	<b>-1.19%</b>

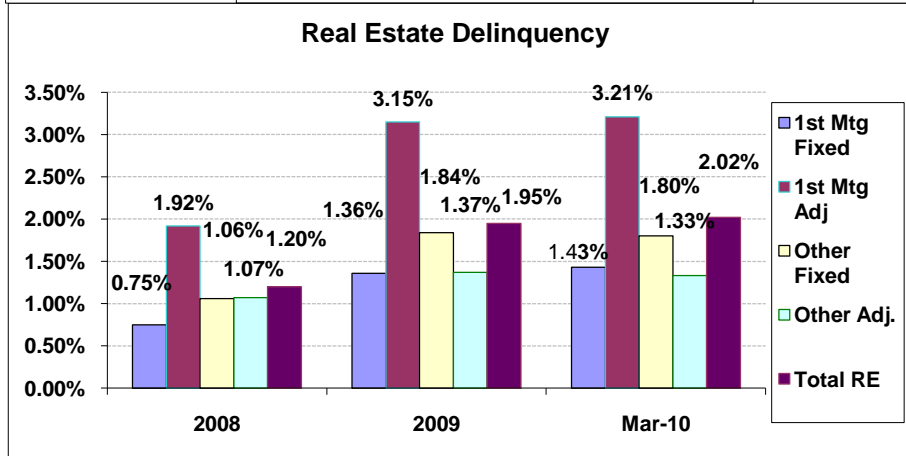
Loans declined by \$6.81 billion during the quarter. This decline, coupled with strong share growth, resulted in a decline in the loan to share ratio to 73.16%, the lowest since 2004. Only two loan categories had positive growth and it was minimal. Real estate loans continue to comprise the largest portion of total loans at 55%, followed by vehicle loans at 30%. First mortgage real estate grew minimally by 0.4%, with positive growth seen in adjustable rate mortgages (>1 year) and fixed rates other than balloon/hybrids or fully amortizing loans. Maintaining positive growth while ensuring loans granted are within the credit union's risk parameters will continue to be a challenge in the current economic environment.

## DELINQUENCY TRENDS



Total Loan Charge-Offs and Recoveries and Outstanding Foreclosed Real Estate	December 2009 In Billions	March 2010 In Billions	% Change
Total Loans Charged Off*	\$7.62	\$7.61	-0.1%
Total Loan Recoveries*	\$0.72	\$0.86	19.6%
Total Net Charge-Offs	\$6.89	\$6.75	-2.1%
Foreclosed Real Estate	\$1.17	\$1.30	11.6%
Modified Real Estate	\$6.07	\$6.77	11.6%

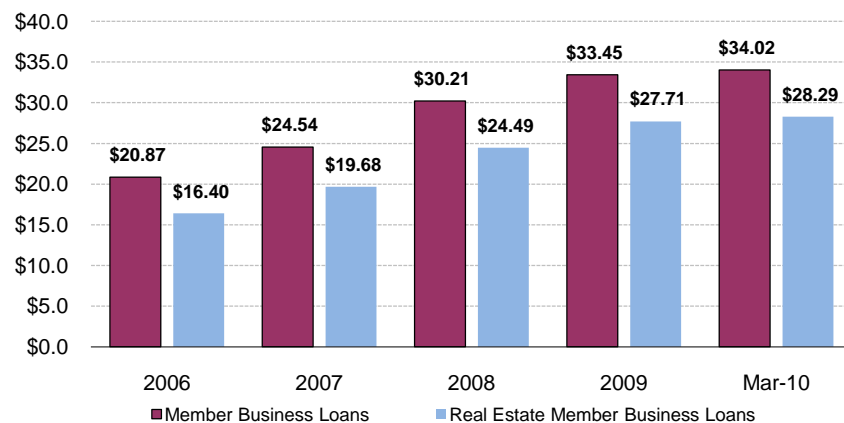
\*Annualized



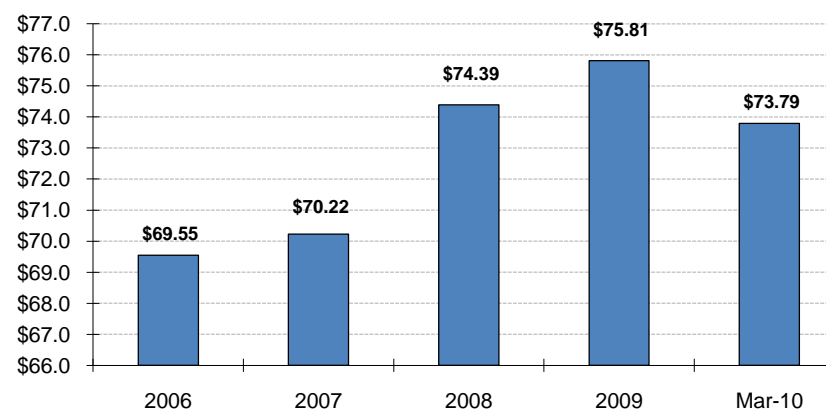
Loan delinquency and charge-offs moved in a positive direction with delinquent dollars declining \$516 million. This is encouraging, but it should also be noted foreclosed real estate increased by \$135 million and modified real estate loans increased by \$702 million. At the end of the first quarter 2010, credit unions held \$6.77 billion in modified real estate loans, with these loans reporting a delinquency ratio of 22.34%. Close monitoring of these loans will need to continue.

## OTHER LOAN AND DELINQUENCY TRENDS

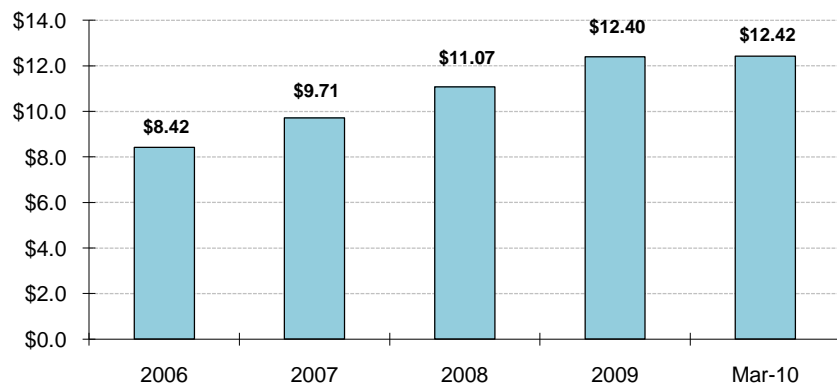
**TOTAL OUTSTANDING MEMBER BUSINESS LOANS**  
(In Billions)



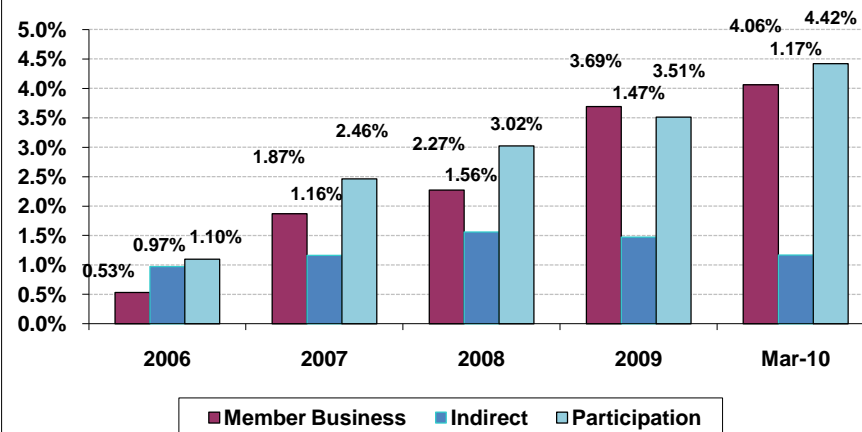
**TOTAL OUTSTANDING INDIRECT LOANS**  
(In Billions)



**TOTAL OUTSTANDING PARTICIPATION LOANS**  
(In Billions)

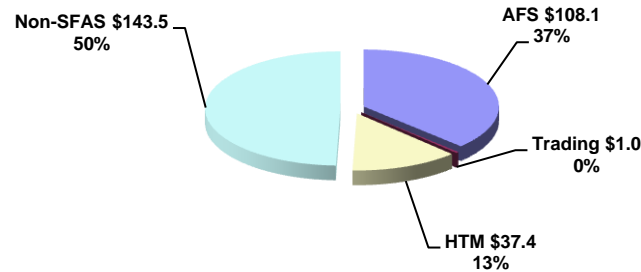


**Reportable Delinquency**

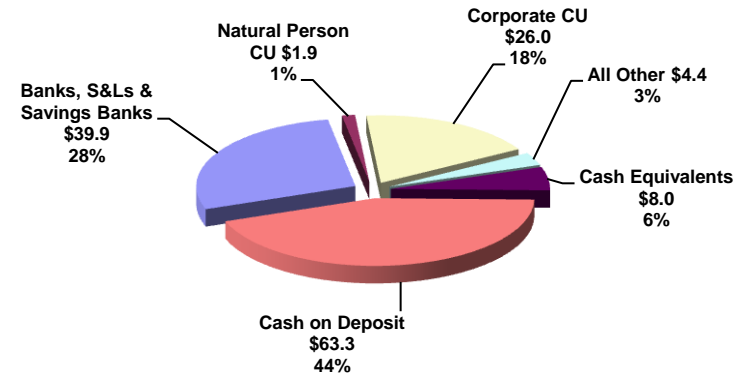


## INVESTMENT TRENDS

**SFAS 115 INVESTMENT CLASSIFICATION**  
(Billions of Dollars)



**TOTAL NON-SFAS 115 INVESTMENT DISTRIBUTION**  
(Billions of Dollars)

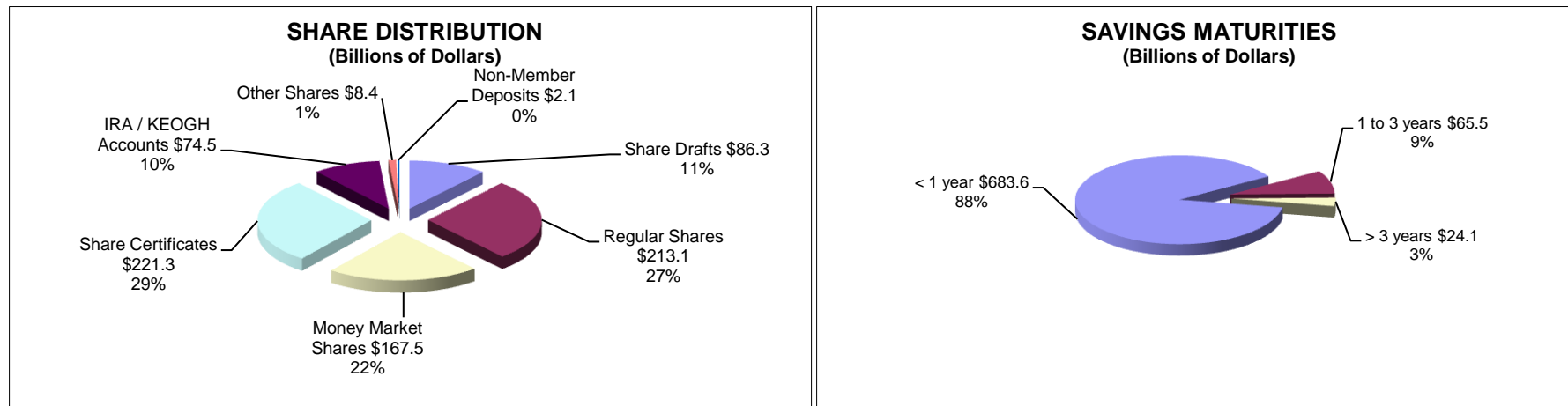


Investment Maturity or Repricing Intervals	December 2009 In Billions	% of Total Investments 2009	March 2010 In Billions	% of Total Investments March 2010
Less than 1 year	\$141.06	52.09%	\$144.25	49.72%
1 to 3 years	\$79.57	29.39%	\$88.03	30.34%
3 to 5 years	\$32.74	12.09%	\$38.00	13.10%
5 to 10 years	\$13.05	4.82%	\$15.13	5.21%
Greater than 10 years	\$4.36	1.61%	\$4.73	1.63%
<b>Total Investments</b>	<b>\$270.78</b>		<b>\$290.14</b>	

The maturity structure of the investment portfolio remains very short, resulting in a low interest rate risk profile for this portion of the balance sheet. Credit unions maintain their investments in high quality, safe instruments. Fifty percent of investments are in cash or equivalents, deposits in corporate credit unions, and deposits in other financial institutions. These provide liquidity and are generally not vulnerable to changing market values. Of the remaining investments, which are subject to SFAS 115 classification, 88% are held in U.S. Government or Federal Agency Securities.



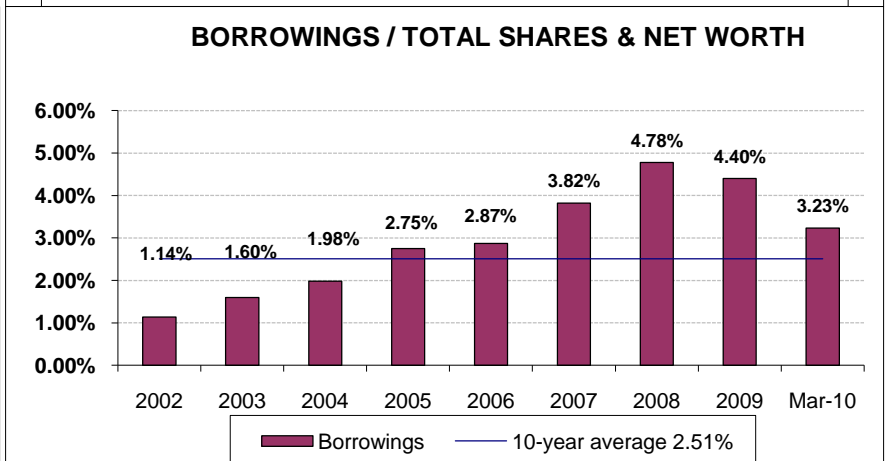
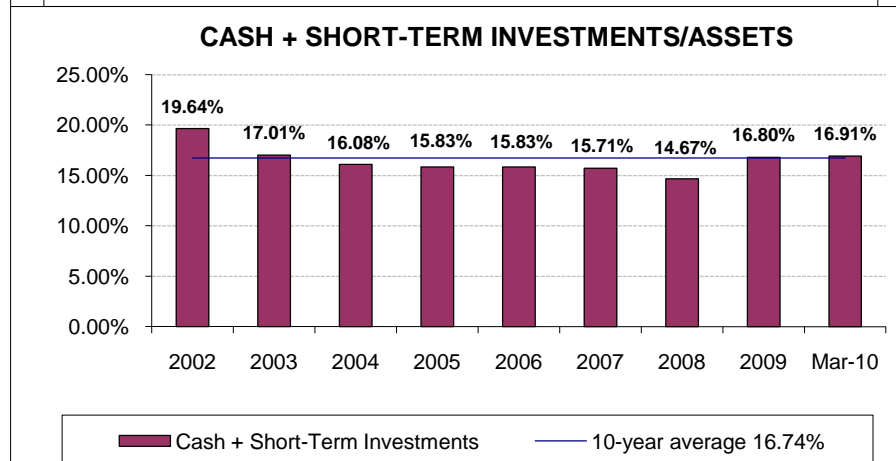
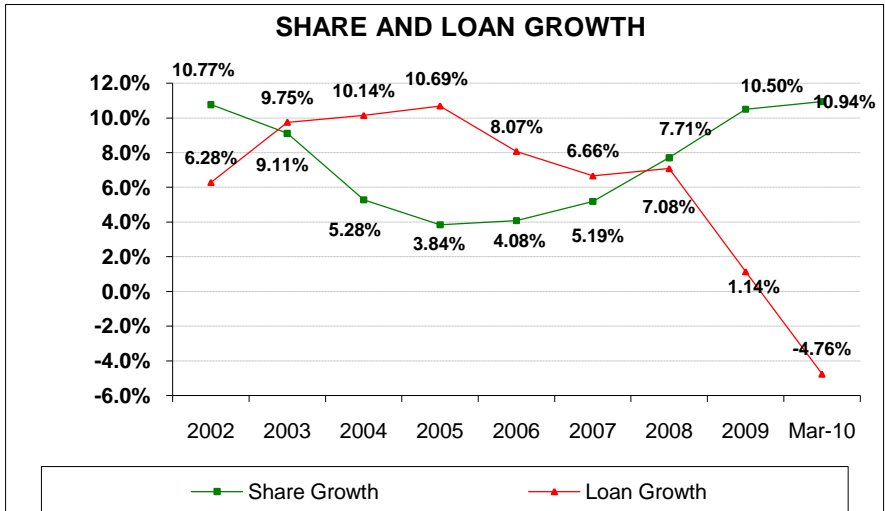
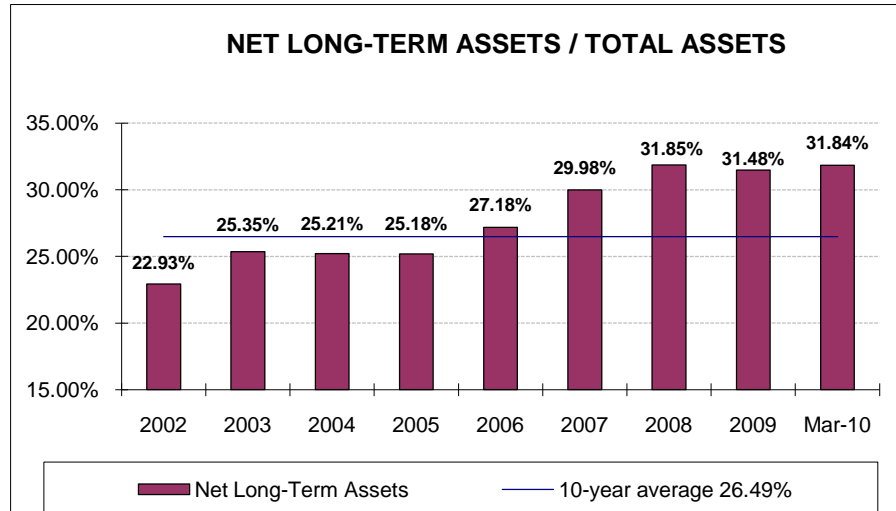
## SHARE TRENDS



Share Category	December 2009 Balance In Billions	% of Total Shares 2009	March 2010 Balance In Billions	% of Total Shares March 2010	Growth In Billions	Growth Rate
Share Drafts	\$85.23	11.32%	\$86.33	11.16%	\$1.1	1.3%
Regular Shares	\$199.79	26.55%	\$213.14	27.56%	\$13.35	6.7%
Money Market Shares	\$158.51	21.06%	\$167.47	21.66%	\$8.96	5.7%
Share Certificates	\$225.77	30.00%	\$221.31	28.62%	-\$4.46	-2.0%
IRA / KEOGH Accounts	\$73.39	9.75%	\$74.50	9.63%	\$1.11	1.5%
All Other Shares	\$7.71	1.02%	\$8.37	1.08%	\$0.66	8.6%
Non-Member Deposits	\$2.27	0.30%	\$2.12	0.27%	-\$0.15	-6.6%
<b>Total Shares</b>	<b>\$752.67</b>		<b>\$773.24</b>		<b>\$20.57</b>	

Total shares increased \$20.6 billion or 10.94% (annualized) during the quarter. Share certificates declined 8% annualized, continuing a trend which started in the second quarter of 2009. The largest dollar growth is seen in regular share accounts, a positive change from prior trends. While the growth in regular shares reflects member confidence in credit unions, more than 60% of total shares continue to be held in rate-sensitive accounts while 88% of shares mature in less than one year. Continued monitoring of rate sensitivity is necessary.

## ASSET LIABILITY MANAGEMENT TRENDS



Credit unions hold adequate levels of liquidity; however, in a rising interest rate environment the potential for increasing interest rate and liquidity risk exists. The increase in cash and short-term investments is due to strong share growth outpacing loan growth. The net long-term asset ratio of 31.84% presents potential interest rate risk exposure. Credit unions with higher levels of liquidity risk or interest rate risk must continue to demonstrate diligent risk management procedures.

## SUMMARY OF TRENDS BY ASSET GROUP

	<b>Asset Group</b> Under \$10 million	<b>Asset Group</b> \$10 million to \$100 million	<b>Asset Group</b> \$100 million to \$500 million	<b>Asset Group</b> Over \$500 million
# of Credit Unions	2,903	3,225	1,011	359
Total Assets	\$11.23 billion	\$114.48 billion	\$222.45 billion	\$549.45 billion
Average Assets	\$3.87 million	\$35.50 million	\$220.03 million	\$1.53 billion
Net Worth/Total Assets	14.92%	11.61%	10.10%	9.31%
Average Net Worth (non dollar-weighted)	16.48%	12.23%	10.12%	9.64%
Net Worth Growth*	-9.50%	1.17%	3.51%	6.90%
Return on Average Assets (ROA)	-0.18%	0.14%	0.34%	0.62%
Net Interest Margin/Average Assets	3.73%	3.49%	3.36%	3.12%
Fee & Other Income/Average Assets	0.64%	1.09%	1.35%	1.20%
Operating Expense/Average Assets	3.98%	3.82%	3.62%	2.77%
Members / Full-Time Employees	401.36	397.07	350.29	399.50
Provision for LLL/Average Assets	0.43%	0.49%	0.72%	0.95%
Loans/Shares	59.12%	63.60%	71.06%	76.36%
Delinquent Loans/Total Loans	2.55%	1.58%	1.62%	1.83%
% of Real Estate Lns Delinquent > 2 Mths	1.92%	1.65%	1.79%	2.15%
Net Charge-Offs/Average Loans	0.80%	0.79%	1.04%	1.32%
Share Growth*	11.77%	12.52%	11.32%	11.17%
Loan Growth*	-9.33%	-4.81%	-4.21%	-4.18%
Asset Growth*	7.53%	7.20%	4.60%	6.75%
Membership Growth*	-2.23%	-0.16%	1.07%	3.72%
Net Long-Term Assets/Total Assets	8.42%	22.65%	31.27%	34.45%
Cash + Short-Term Invest./Assets	34.86%	24.10%	17.68%	14.73%
Borrowings/Shares & Net Worth	0.07%	0.31%	1.45%	4.68%

\*Note: The growth trends are based on the same FICUs reporting 12/31/09 and 3/31/10 using assets as of 3/31/10.

A distinct difference exists in the performance among the different asset groups. Net worth ratios are solid among all asset groups with the largest percentages being reported in the under \$10 million category. However, the under \$10 million category numbers indicate these credit unions are having the greatest challenge with earnings, loan growth, and membership growth. The larger credit union categories are able to benefit from their economies of scale and ability to more easily increase membership.